THE CAPITAL CONNECTION

News from the Department of Insurance, Securities and Banking — *February/March 2006*

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The Capital Connection

The Capital Connection, a bi-monthly publication from the Government of the District of Columbia Department of Insurance, Securities and Banking, will replace the agency's former newsletter, *The Financial Gateway Express*. It is done in-house by the department's office of communications. For more information, visit its Web site at www.disb.dc.gov. Please feel free to forward this newsletter to colleagues and other interested parties. If you would prefer not to receive this publication, contact Michelle Phipps-Evans at 202-442-7822 or send an e-mail to michelle.phipps-evans@dc.gov. Type REMOVE in the subject line.

Captive in the Capital

Captives Need to Speak Up

DISB Acting Commissioner Thomas Hampton has been encouraging captive insurance companies to lobby key regulators against a move to treat risk retention groups (RRGs) as traditional insurers. He acknowledged that he is the only commissioner advocating RRG licensing of captives as national policy within the National Association of Insurance Commissioners (NAIC). Hampton voiced his opinion at a breakfast event on Jan. 17 in Washington, D.C., where he was the keynote speaker. It was

DISB Acting Commissioner Thomas E. Hampton speaks at the 2006 Captive Insurance Breakfast Series.

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DISB Presents Investment Opportunities in City's Great Streets Initiative

By Michelle Phipps-Evans

Deputy Mayor for Planning and Economic Development Stanley Jackson

For District of Columbia residents, the Great Streets Initiative is an exciting proposal that took a long time in coming to certain neighborhoods. Those residents living within proximity to one of the seven corridors targeted for investment are the ones who will benefit the most from the changes. One of these people is community activist Paul Savage, a longtime resident of the Hillcrest neighborhood in Ward 7 in southeast Washington, D.C.

"I believe that Great Streets is necessary if [the city] is to be successful in bringing real economic development to Pennsylvania," said Savage who will enjoy changes to the Pennsylvania Avenue corridor. "The infrastructure must be changed. What this means is that the Great Streets program is designed to change the entire appearance of Pennsylvania Avenue by changing how it looks from the very beginning of where sidewalks begin in front of business entities. This includes both sides of Pennsylvania Avenue, including changing the lighting, sidewalks, etc., even in the purely residential areas."

Deputy Mayor for Planning and Economic Development Stanley Jackson,

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Should Risk Retention Groups be Required to Make a Capital Contribution?

By Dana Sheppard

The release of the Government Accountability Office (GAO)'s report on the regulation of risk retention groups has placed captive domiciles such as the District of Columbia, Vermont and South Carolina in the spotlight because the majority of insurance regulators license and regulate Risk Retention Groups (RRGs) as traditional insurers. The GAO report was thorough and raised several issues of concern to both captive and traditional insurance regulators. A few of the most important issues include, but are not limited to, whether (1) captive domiciles should continue to allow RRGs to prepare financial statements based on Generally Accepted Accounting Principles (GAAP) rather than Statutory Accounting Principles (SAP); (2) it is appropriate for RRGs to take credit for risks ceded to "unauthorized" reinsurers; and (3) every member of the RRG should be required to contribute capital to the RRG.

DISB continues to be at the forefront of jurisdictions when it comes to meeting the needs of the ART community.

The issues raised by the report go beyond those listed above, and are currently the subject of two National Association of Insurance Commissioners (NAIC) working groups. The NAIC is considering whether some or all of the Part A Accreditation standards applicable to traditional insurers should be made applicable to RRGs regulated as captives. Currently, RRGs are regulated under the Part B Accreditation standards.

There is another issue, however, that had not been addressed—capital contributions. As the District of Columbia becomes a popular domicile for RRGs, some have questioned why the Department of Insurance, Securities and Banking (DISB) would license an RRG that is not capitalized solely by its members. A related question is whether it is appropriate for someone other than the policyholders of an RRG, such as a broker or captive manager, to provide the capital and surplus for the members of the RRG?

Most RRGs are formed due to a combination of the unavailability or the inability to afford coverage in the traditional insurance market. In other words, insureds look for alternative risk transfer (ART) solutions because they are unable to satisfy their risk financing needs in the traditional insurance marketplace. In some instances, members do not have capital to contribute. In others, insureds may have the capital but would prefer to deploy their capital for other purposes, and would be more than willing to let captive managers and brokers share in the risks and rewards of funding their insurance programs.

To guarantee the members' long-term commitment, it is preferable for RRG members to have a financial stake in their RRGs, but in some cases this is not always feasible.

Perhaps the concept is best understood through an example of an RRG that DISB licensed in 2004. A national evangelical organization was faced with increasing costs for their liability programs, even though their losses did not justify the significant increases. When leaders of the organization met with DISB, they explained that several member churches were capable of making contributions toward the initial capitalization of the RRG, but several churches were unable to contribute. The proposal, which was approved, was to make the churches that could contribute capital "funding members" and those that were unable to contribute "ordinary members." The funding members would be entitled to dividends and other financial distributions, while the ordinary members would not. Otherwise, all the churches would participate equally in the governance of the RRG and ordinary members could become funding members at a later date when they were financially able. The religious leaders explained that it would violate their religious principles to exclude some members on the basis of their inability to contribute to the capitalization of the RRG; and DISB agreed that it was unnecessary to require capitalization from each member church. This approach to capitalization is legal—the federal Liability Risk Retention Act does not require members to capitalize their RRG—and the District of Columbia's captive law only speaks to the amount of capital, not its source.

DISB believes this is a success story, but some of our colleagues, many of whom do not understand ART, and who have never embraced the RRG concept, would argue that a RRG capitalized this way violates the letter, if not the spirit, of the federal Liability Risk Retention Act. DISB disagrees. The agency continues to be at the forefront of jurisdictions when it comes to meeting the needs of the ART community. DISB prides itself on being flexible and innovative, while maintaining appropriate regulatory standards to ensure financial solvency.

Associate Commissioner Dana Sheppard is the head of DISB's Risk Finance Bureau.

Captives Need to Speak Up,
Continued from page 1

organized by the Captive Insurance Council of the District of Columbia.

The NAIC's examination of new regulations for captives are a response to concerns raised by the Government Accountability Office, which said in a recent report that RRGs play a small but important role in maintaining coverage affordability and availability, but also have an increased potential for solvency problems.

"Changing RRGs that are regulated as captives to the traditional company regulatory scheme does not address the financial solvency concerns that contribute to those insolvencies," Hampton said to the sizeable crowd. However, he said the work groups established by the NAIC appear to be working toward that end and are being led by commissioners from states that "don't have captives, don't have RRGs licensed as captives, and think that the whole process is bad."

DISB does not support adopting tougher Part A laws and standards for RRGs licensed as captive insurance companies, which would effectively subject them to the same regulatory requirements as traditional insurers. According to Hampton, commissioners from some states that license captives need to pay closer attention to the regulation question. Further, much of the work toward establishing Part A standards for captives would have been set at a financial summit sponsored by NAIC in February in advance of its national meeting a month later. Captive insurance issues are especially important for the District, which has licensed 59 since 2001.

DISB NEWS BRIEFS

ANTI-FRAUD COMPLIANCE NOTICE REMINDER:

Attention All D.C. Licensed Insurers

Your annual anti-fraud statistical report for calendar year 2005 is due by March 31, 2006, at DISB's Enforcement and Investigation Bureau. However, if you have been granted an exemption based on your last known representation on file, please disregard this notice. You may follow these steps for an electronic reporting form at www.disb.dc.gov. Under Information, click on Enforcement and Investigation. The Anti-Fraud Compliance Reporting Forms are the links you need. Or copy the following URL into your browser, http://disb.dc.gov/disr/cwp/view,a,1300,q,577524,disrNav,32821.asp. If you have any questions, please contact Fraud Compliance Manager Betty M. Bates at (202) 727-0384 or e-mail her at betty.bates@dc.gov.

Hampton Nominated D.C. Insurance Commissioner

Thomas E. Hampton has been officially nominated by D.C. Mayor Anthony Williams to be the District's next insurance commissioner. It is expected that the Committee on Consumer and Regulatory Affairs, chaired by D.C. councilmember Jim Graham will schedule a confirmation hearing soon. Hampton has replaced former commissioner Lawrence Mirel who retired from government service to enter private law practice.

DISB's Insurance Bureau Extends Open House Invitation

DISB will be hosting July 21, 2006, an open house for all insurance industry personnel to exchange and facilitate regulatory and business practices and information. The open house will be used as a tool to open communication concerning market conduct, freedom of information requests, forms and rate filings, financial examinations, agent- or company-licensing information and consumer complaints. More information will be coming in the next issue of The Capital Connection. If you have any questions, please contact Insurance Examination Manager Jamai Fontaine at (202) 442-7782 or e-mail her at jamai.fontaine@dc.gov.

DISB in multi-state settlement Agreement with Ameriquest Mortgage Company

DISB and the District's Office of the Attorney General entered a multi-state settlement agreement with Ameriquest. The $325 million settlement is the second-largest state or federal consumer protection settlement in history. District consumers are expected to receive about $180,000 in restitution.

DISB Joint Investigation Leads to Conviction

A joint investigation between the U.S. Department of Labor (DOL) Office of the Inspector General and DISB's senior investigator Carl Ditchey of the Enforcement and Investigation Bureau, concluded Jan. 5, 2006, with the guilty plea and sentencing of Wanda Alston in D.C. Superior Court for second degree insurance fraud for filing false claims with Liberty Mutual. Alston, an employee of DOL in the Workers' Compensation Office, created fictitious medical providers and fabricated documents from those providers to support false workers' compensation claims. Alston was sentenced to six months incarceration (suspended), two years supervised probation and ordered to pay $5,596.31 in restitution. She was also ordered to pay $50.00 to the victim impact fund.

DISB issues new taxicab Insurance Rates

DISB has received and approved all D.C. taxicab insurance companies' rates for 2006 and has sent the information to the D.C. Taxicab Commission for distribution to the taxicab companies and drivers. As anticipated, the six-month policy has brought down the insurance rates for the District's taxicabs. Although the six-month policy took effect in January, taxicab insurers have until July 2006 to fully implement the requirements.

Enforcement and Investigation Bureau has a new address

DISB's Enforcement and Investigation Bureau has relocated its offices to 1400 L St., NW, Suite 400, Washington, D.C. 20005. General phone number: (202) 727-1563

DISB Invites Insurance Companies to Join Its Insurance Advisory Council

DISB's Insurance Advisory Council is an advisory group made of insurance companies and industry representatives whose primary function is to advise the agency on insurance regulations and industry-related issues. The group meets quarterly after each meeting of the National Association of Insurance Commissioners (NAIC) with the commissioner and other DISB leaders to provide insight on DISB's regulatory work, and give feedback on how it can do better. The next meeting will be in the spring after the NAIC meeting from March 4-7, 2006. Currently, the Insurance Advisory Council has subcommittees on life, personal loss, commercial and health. If you are an insurance company or industry group and would like to join this council, please contact the Office of the Commissioner at (202) 442-7773.

Government of the District of Columbia
Anthony A. Williams, Mayor

DISB HIGHLIGHTS ITS DEPARTMENTS

In each issue of The Capital Connection, DISB will feature one of its bureaus or offices and its director. This month, DISB showcases the Banking Bureau, the latest addition to the agency. On March 1, 2004, D.C. Mayor Anthony Williams signed legislation enacted by the Council of the District of Columbia that merged the former Department of Insurance and Securities Regulation (DISR) and the former Department of Banking and Financial Institutions (DBFI) into one new agency: The Department of Insurance, Securities and Banking (DISB). This was a direct result of Congress enacting the Gramm-Leach-Bliley law in 1999, which tore down the walls of separation between the business of insurance and the business of banking. Gramm-Leach-Bliley, otherwise known as the Financial Services Modernization Act of 1999, has changed the nature of financial services as District citizens now have the ability to purchase products that combine aspects of all three areas of regulation: insurance, securities and banking.

Howard Amer and the Banking Bureau

The director of the Banking Bureau is Howard Amer who joined the department early 2005 as the associate commissioner for banking having previously served with the Federal Reserve System for most of his 32-year career in bank supervision. Amer had worked for the Federal Reserve Board of Governors. Most recently, he was the deputy associate director in the division of banking supervision and regulation, and was the secretary to the Supervision Strategic Plan Steering Committee.

He moved up through the ranks of the Federal Reserve, having served at various times as a supervisory financial analyst, a manager of multinational and international bank supervision and assistant director in charge of Y2K readiness for the banking industry. For his efforts on Y2K, Amer received an award as an outstanding federal manager. He has also worked with the Federal Reserve Bank of Boston, which is part of the Federal Reserve, and with Chase Manhattan Bank. He graduated from the City College of New York, and has an MBA in finance from Northeastern University. Throughout his career, Amer has been directly involved in problem and failing bank resolution, financial institution emergency business resumption and complex project management.

(Left to Right), DISB Banking Bureau director Howard Amer; Curtin Winsor, chair, Bank of Georgetown and Mike Fitzgerald, president and CEO, Bank of Georgetown, at the bank's grand opening on June 23, 2005.

Amer noted that having all three major financial-services industries under DISB was a great advantage now that Congress has removed the traditional walls that separated those industries.

"We will look for ways to permit new kinds of combined financial activities to operate in a supportive environment, while still ensuring fiscal soundness and strong protection for consumers," Amer said.

DISB's Banking Bureau regulates and supervises District-chartered banks and non-depository financial institutions licensed by the agency, including mortgage brokers and lenders, money transmitters, check cashers, money lenders, consumer-sales-finance companies and consumer-credit-service organizations. It also registers non-bank-owned automated teller machines. As the head of the bureau, Amer strives to ensure that banks and other financial institutions make Herculean efforts to provide a sound and thriving financial-services community able to deliver products, credit and capital vital to the needs of the District's residents and businesses. To accomplish this, during 2005, the bureau chartered another commercial bank and licensed over 1,200 non-depository financial institutions.

The 10-person banking staff under Amer's direction was particularly busy last year helping the Bank of Georgetown open May 13 as the second District-chartered bank since Congress expanded the District's authority to do so in 2004.

"We were quite pleased with how the operations went," Amer said. The ribbon cutting ceremony on June 23 attracted several prominent city officials as well as community leaders who helped celebrate the

Howard Amer, director of the Banking Bureau

establishment of a new District-chartered bank that will enhance the availability of banking services to District consumers.

The year 2005 also saw the Banking Bureau expand its efforts in supervising the District's licensed money transmitters, ensuring their compliance with the District's Money Transmitters Act as well as federal anti-money laundering requirements. By tightening licensing review procedures, and by conducting several examinations working with federal bank regulators, the bureau made progress in enhancing its oversight of these money-service businesses.

Amer added that the bureau's work is well within DISB's twofold goal.

"We will look for ways to permit new kinds of combined financial activities to operate in a supportive environment, while still ensuring fiscal soundness and strong protection for consumers," Amer said. "I welcome the challenge in working with the other directors at DISB to enhance the attractiveness of the District of Columbia, our national capital city, as a great place for domestic and international banks to do business."

Great Streets, *Continued from page 1*

Karina Ricks, Great Streets Initiative project coordinator for the D.C. Department of Transportation, shows the type of work that would be done once the initiative gets underway.

whose office is heading up Great Streets, agreed that the initiative is necessary in transforming some of these long-neglected areas.

"We are taking an aggressive approach to fixing and improving these corridors," Jackson said. "We're actively marketing different sites, and encouraging private developers to consider relocating now because the end result will be phenomenal."

The Great Streets Initiative is a multi-year, multiple agency approach to changing under-invested corridors into thriving and inviting neighborhood centers using public actions and tools to leverage private investment in retail, housing, offices and cultural facilities. It is expected to bring about a complete transformation of the corridors. This multidisciplinary approach to corridor improvement will comprise public realm investments, strategic land use plans, public safety strategies and economic development assistance, according to its Web site. The targeted corridors are Georgia Avenue/7th Street, NW; H Street, NE; Benning Road, NE; Martin Luther King Jr. Avenue, SE/ South Capitol Street; Pennsylvania Avenue, SE; Minnesota Avenue, NE/SE and Nannie Helen Burroughs Avenue, NE.

The Department of Insurance, Securities and Banking (DISB) is working with the Great Streets Initiative to introduce several investment opportunities along these various corridors.

"We want to have a regular forum geared toward bankers to expose them to different neighborhoods along the Great Streets corridors, current development activity, key neighborhood partners, development opportunities and District incentives," said DISB Acting Commissioner Thomas E. Hampton. "There are some corridors that have no banks or retail opportunities and DISB could help in matching resources for capital improvement needs."

Derrick Woody, the Great Streets coordinator in the Office of the Deputy Mayor for Planning and Economic Development (DMPED), agreed with the acting commissioner.

"Acquisitions still remain a challenge to some Great Streets businesses and some potential new businesses are seeking financial assistance as well," Woody opined.

"It's a lot of turf; it's 22 1/2 miles of corridor, of commercial property that has not been put to the best use," said Woody about the seven corridors. The purpose of the initiative is to increase local neighborhood livability and economic development by improving the physical, economic and safety condition of the corridors, and create a new environment that invites private investment and neighborhood pride, according to Woody.

Aerial depiction of Pennsylvania Avenue in southeast Washington, D.C.

"Whatever DISB can do to help bring more capital and attention to the underserved neighborhoods in the District of Columbia, it will do its part," Hampton said.

D.C. Mayor Anthony Williams raved about the initiative, a brainchild under his administration.

"Great Streets are so important because they really are the arteries of commerce, vitality, city living, jobs and opportunity in our city," Williams said. "Great Streets are part of the building blocks of a great city." The District will invest up to $16 million in small business assistance and gap funding of development projects. Over $100 million will be invested in new sidewalks, lighting, paving and street trees to improve the physical setting, reduce crime and attract new development.

The D.C. Department of Transportation (DDOT) began by investing its $100 million budget in public realm improvements on segments of Benning Road, H Street, Pennsylvania Avenue, MLK Avenue and South Capitol Street in fiscal year 2006. Improvements to all corridors are expected to be completed by 2009.

Southeast resident Paul Savage discusses the Great Streets Initiative and the neighborhood's needs with the D.C. Department of Transportation in October.

"We're looking at a real time line, not some day in the future," said Karina Ricks, Great Streets project coordinator for DDOT. "This is a four- to five-year program, which implements what the communities want." The initiative partners several District government agencies and it is a joint venture among DDOT, DMPED, the Office of Planning, the Department of Parks and Recreation and Neighborhood Services Coordinators, among others.

Since the project is key to revitalizing the city, DISB will do all it can to help make it happen, according to Hampton.

"Whatever DISB can do to help bring more capital and attention to the underserved neighborhoods in the District of Columbia, it will do its part," Hampton said. Some of the actions that DISB will put in place during the coming year, include adding a link to the Great Streets Initiative on its Banking Bureau's Web page; it will provide updates on the program through its bi-monthly newsletter; it will send informational updates on the program to banks that it regulates and it will provide contact information to banks on the program. While this is only one phase of involvement, Hampton said that as the project moves along, DISB will look at other areas where the agency would be able to get involved.

"DISB is excited about this project and we look forward to working with other agencies and the residents in having this project spring to life," Hampton added.

For more information, contact the Office of the Deputy Mayor for Planning and Economic Development at (202) 727-6365; the Department of Transportation at (202) 673-6813 or visit the Great Streets' Web site at www.greatstreetsdc.com.

Michelle Phipps-Evans is the senior public affairs specialist in DISB's Office of Communications.

Consumer Corner

What you Need to Know About Medicare Part D

By Katheryne Willis

Medicare Part D is the voluntary prescription drug benefit under the Medicare program. Everyone on Medicare can obtain the Part D coverage regardless of income or health. To obtain coverage, beneficiaries can choose to enroll in a stand-alone prescription drug plan or a Medicare Advantage plan that provides comprehensive health care benefits. If you have a limited income (less than 150 percent of the federal poverty level, which is $14,355 for an individual in 2005), and qualify for subsidies from the federal government, you will pay very little for coverage, such as no or low premiums, low co-payments and little or no deductible.

You will also have to pay a monthly premium of about $32 for your prescription drug plan. Some prescription drug plans will offer lower premiums and deductibles. In addition, some prescription drug plans will charge you a higher premium to cover a portion of the gap coverage when Medicare pays nothing for your drugs.

One important date regarding Medicare Part D is May 15, 2006, which is the last to join a drug plan operating under the Medicare Part D program without a penalty, unless you qualify for an exception. Jan. 1 was the first day one could have used the Medicare Part D coverage.

For more information, consult the following:

- Five Basic Steps to Understand the New Medicare Prescription Drug Program –http://www.cms.hhs.gov/FamilyFirst051118c-N.pdf

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Consumer Education and Protection Information Empower District Residents

Ask any District of Columbia resident what is a major source of frustration when it comes to finances, any of them would say it is lack of information and not knowing where to find it. This is why the Department of Insurance, Securities and Banking (DISB) has beefed up its focus on consumers and consumer education and protection. Although the agency is largely known as the District's principal regulatory agency of the three major financial industries—insurance, securities and banking—it has reached out in a major way to provide District residents with access to consumer education and protection information, mainly through its Web site.

The Web site, www.disb.dc.gov, has been revamped to provide residents with better access to consumer links, consumer education and protection information in formats such as bulletins, press releases, consumer alerts, newsletters, consumer brochures and publications. DISB is currently working on improving the quality and content of its insurance, securities and banking publications. During the past several months, DISB has placed information regarding discount health cards, key investor knowledge and behaviors, investing in 529 college savings plans, hurricane-related scams, unfair trade practices for homeowners, DISB-related criminal investigations, and it has listed the agency's services for the general consumer, among others.

One of DISB's major programs in the coming months is its citywide investor education and protection program. DISB has placed seven investor education booklets on its Web site, which the public can download and print out for free. The booklets tackle the basics of several key investor topics such as stocks and bonds. Each booklet includes a glossary of terms and information on the role of state securities regulators and how to contact them. The publications are produced by the editors of *Kiplinger's Personal Finance* magazine, and the Investor Protection Trust (IPT), a nonprofit dedicated to investor education and protection. The booklets include *Five Keys to Investing Success, The Basics for Investing in Stocks, A Primer for Investing in Bonds, Mutual Funds: Maybe All You'll Ever Need, Getting Help With Your Investments, Where to Invest Your College Money* and *Maximize Your Retirement Investments.*

DISB has been working in conjunction with IPT and the American Library Association to bring free investor-education seminars to the District's public libraries. Planning is underway for the initial launch at the Martin Luther King Jr. Memorial Library on March 28, 2006.

Investor Education Coming Soon to Your Library

DISB will launch its investor education program on March 28, 2006, at the Martin Luther King Jr. Memorial Library. DISB is teaming with the library, the American Library Association (ALA), the Investor Protection Trust (IPT) and the editors of *Kiplinger's Personal Finance* magazine to launch an Investor Education @ Your Library® seminar.

The 90-minute seminar will include a presentation by DISB's Acting Commissioner Thomas E. Hampton and its Associate Commissioner for Securities Theodore Miles on the regulation of securities by DISB. They will also discuss investor protection and education initiatives that can benefit District residents. There would be exercises for attendees, six systemic investment steps, followed by an optional one-on-one financial check-up by investment advisers from the Evelyn Brust Foundation. DISB plans on scheduling additional investment education seminars at branch libraries in at least four wards in the District during 2006.

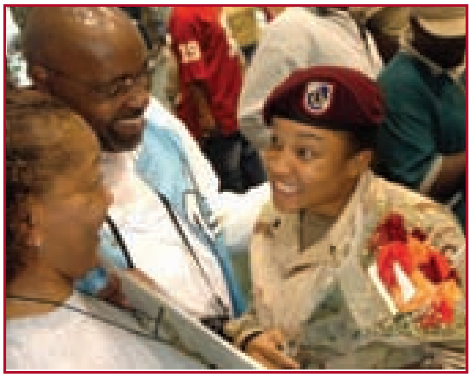
Investor Education @ Your Library® is a national pilot program funded by a grant from IPT, a nonprofit organization dedicated to investor education, and the program is part of the ALA's Campaign for America's Libraries. The Martin Luther King Jr. Memorial Library at 901 G St., NW, Washington, D.C., was selected to participate in the program, and has been provided customized materials developed by ALA, IPT and Kiplinger, including seven booklets focusing on different investment topics and a digital video disc set of IPT's national "MoneyTrack" series, being aired on Public Broadcasting Stations nationwide. District of Columbia residents will have access to the seven booklets in the library. They can also be found on DISB's Web site. For more information, contact the library at (202) 727-1171.

GAO Recommends Actions to Better Protect Military Personnel

By Ron Claiborne

The Government of the District of Columbia Department of Insurance, Securities and Banking (DISB) may be presented with a new regulatory challenge of designating staff to receive complaints from the Department of Defense (DOD) and conducting financial-product-sales outreach to enlisted military service personnel.

The U.S. Senate's Banking, Housing and Urban Affairs Committee recently held a hearing to review a report from the Government Accountability Office (GAO) on the sale of financial products on military bases. The GAO report recommended that Congress provide state insurance and securities regulators full access to persons and information to oversee the types of sales taking place on military installations. It also recommended involving service personnel, considering a ban on so-called contractual plans for investment in mutual funds, and requesting that insurance regulators conduct reviews to ensure that products being sold to the military meet existing insurance requirements. This would guarantee the development of appropriateness or suitability standards for such sales.



Spc. Kerry-Ann Simpson greets her family upon her return from Iraq.

The GAO report came out of a study launched after a series of press articles in 2004 alleging that financial firms were marketing expensive and potentially unnecessary insurance, or other financial products, to the military. To assess whether military service members were adequately protected from inappropriate product sales, the GAO examined the features and marketing of certain insurance and securities products being sold to the military; and how financial regulators and DOD were overseeing these sales. At the congressional hearing, however, it was revealed that there had been enforcement activity, examinations and collaboration between the U.S. Securities and Exchange Commission (SEC), DOD and NASD, along with investor education and outreach activity.

But it was insufficient. The GAO report recommended that the heads of the SEC, NASD, and state insurance and securities regulators assign staff to receive complaints from DOD; and have ongoing outreach with DOD headquarters and individual bases to learn of issues, or concerns, regarding product sales. Financial regulators were generally unaware of the problematic sales to the military because DOD rarely forwarded service-member complaints to them.

To review the full report, including the scope and methodology, go to the following Internet link: www.gao.gov/cgi-bin/getrpt?GAO-06-23.

Ron Claiborne is a public affairs specialist in DISB's Office of Communications.

Treasury Department Requires New Anti-Money Laundering Rules

By Phil Barlow

Anti-money laundering and terrorist financing have become high priorities for the federal and state governments' financial-services-regulatory agencies since the Sept. 11, 2001, terrorist attacks on the United States. Recently, representatives of the Financial Crimes Enforcement Network (FinCEN) from the U.S. Department of the Treasury outlined for state insurance regulators, including the Department of Insurance, Securities and Banking (DISB), that it is required for certain U.S. insurers to establish anti-money laundering programs and file suspicious activity reports.

FinCEN representatives, who attended the National Association of Insurance Commissioners' winter national meeting in Chicago, held discussions during the antifraud task force meeting on two final rules that will affect certain insurance companies. It was outlined that final Treasury Department rules apply to insurance companies that issue or underwrite certain products that present a high degree of risk for money laundering, the financing of terrorism or other illicit activity.

The insurance products subject to the new anti-money laundering rules include:

- Permanent life insurance policies, other than group life insurance policies
- Annuity contracts, other than group annuity contracts
- Other insurance products with features of cash value or investment features

The insurance companies covered by the rule requiring an anti-money laundering program must establish a program that includes four basic elements:

- A compliance officer who is responsible for ensuring that the program is implemented effectively
- Written policies and procedures, and internal controls reasonably designed to control the risks of money laundering, terrorist financing and other financial crimes associated with its business
- Ongoing training of appropriate persons concerning their responsibilities under the program
- Independent testing to monitor and maintain an adequate program

State insurance regulators and insurance industry representatives received the opportunity to ask questions on specific requirements and enforcement cooperation between state insurance regulators and the U.S. Internal Revenue Service.

Associate Commissioner of Insurance Phil Barlow is the head of DISB's Insurance Bureau.

Medicare Part D, continued from page 6

The Standard Medicare Benefit for Prescription Drugs

If your total drug costs in 2006 are the following:	Medicare Prescription Drug Plan pays:	You pay the following if there is no other drug coverage:
$0 to $250 (deductible)	$0	Up to $250
$251 to $2,250 (initial coverage)	75%, up to $1,500	25%, up to $500
$2,251 to $5,100 (coverage gap)	$0	100%, up to $2,800
	Maximum payments up to $1,500	Maximum payments up to $3,600 out of pocket
Over $5,100 (catastrophic coverage)	95%	5% or $2 copay/generic drugs $5 copay/brand name drugs

- Additional information on the Medicare Prescription Drug Program - http://www.medicare.gov/medicarereform/drugbenefit.asp
- Questions about extra help to pay for the prescription drug plan– www.socialsecurity.gov; or call (800) 772-1213
- D.C. Ship Program (GW Counseling Project) – call (202) 739-0668
- The Medicare Rights Center – www.medicarerights.org
- Frequently Asked questions - http://questions.medicare.gov/cgi-bin/medicare.cfg/php/enduser/std_alp.php
- Consumer Alert - http://www.naic.org/documents/consumer_alert_medicare_rx2.htm

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